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# Grange Resources Limited

*Australia's leading magnetite producer*

## REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 2011

### HIGHLIGHTS

Grange Resources is pleased to deliver another solid quarter to shareholders. Savage River has continued to enjoy strong commodity prices with excellent cash generation and the development of the Southdown project near Albany in Western Australia is progressing on schedule and under budget.

Highlights for the September Quarter include:

- Continued excellent safety performance at Savage River. 14 months of no Lost Time Incidents (LTI) achieved.
- Improved cash and trade receivables position of \$215.6 million and no net debt at the end of the quarter.
- Pellet prices remained very strong during the quarter averaging US\$218 per tonne.
- Inaugural 2 cent dividend announced.
- Highest quarterly concentrate production for 12 months.
- Savage River remains “on track” to produce approximately two million tonnes of pellets in 2011.
- Savage River east wall recovery plan proceeding to schedule. Access to high grade ore in North pit re-established as planned.
- Year to date operating and capital costs lower than budgeted.
- Southdown project definitive feasibility study continues, with completion due first quarter 2012.
- Standard Chartered appointed as Financial Advisor for the Southdown Project debt funding.

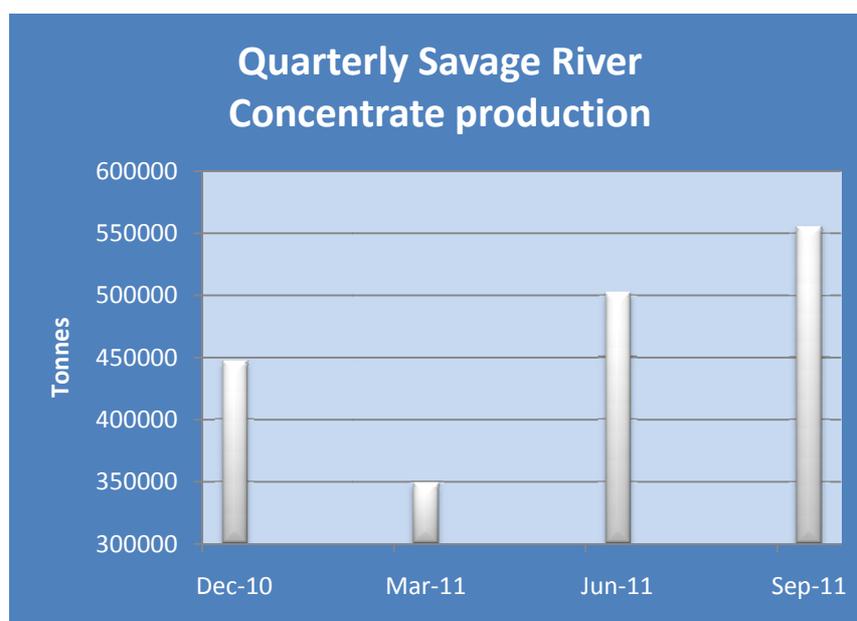
Grange Managing Director, Mr Russell Clark, said “Our employees have continued their excellent safety performance with no Lost Time Incidents (LTIs) recorded for over 14 months.”

“This is a record for the site and demonstrates the value of the improved management processes introduced since Grange took control of the operations.”

“Our pellet prices have remained robust, averaging US\$218 per tonne for the September quarter. Global prices have reduced slightly in recent weeks, offset by a weakening Australian dollar and we expect prices in the December quarter to remain robust.”

“As a result of our continued excellent revenue streams Grange announced its inaugural dividend of 2 cents per share, which was paid on 13 October.”

“The Savage River operations continue to perform well with the East Wall cut back progressing to plan. As previously forecast, we are back mining the main ore body in North Pit, as the remediation of the first phase of the East Wall cut back reaches its conclusion. As a result we are now seeing higher grades, and higher concentrate production. In fact, the last quarter’s production was the highest achieved in the past 12 months.”



“Production at Savage River continues on track to produce two million tonnes of pellets in 2011, with current expectations of upto 2.3 million tonnes in 2012.”

“Operating costs per tonne of pellets produced were at similar levels to the previous quarter. Direct costs are expected to fall in the December quarter as the east wall remediation work is finalised. Recommended mining in the main pit will increase the ore grades processed hence the pellet production will also increase.”

“Grange has announced Memorandums of Understanding (“MOU”s) with Shree Minerals and Venture Minerals, companies that have magnetite ore deposits within reasonable proximity to the Savage River mine. Whilst these companies are at differing stages of bringing their assets into production, we are working together with the aim of reaching agreement to use the Savage River downstream processing and distribution infrastructure to add value for the benefit of both Grange and the new producers. This has the potential to increase production at Savage River by between 200,000 and 300,000 tonnes per annum of magnetite concentrate.”

“The Definitive Feasibility Study (DFS) for our growth project, Southdown, has continued and will be completed in the first quarter of 2012, for consideration by the Owners in the first half of 2012. Grange is funding its share of the study from cash reserves.”

## CASH RESERVES AND FUTURE SALES

Cash and receivables for Grange at 30 September 2011 were A\$215.6 million, up from A\$183.7 million as at 30 June 2011. Costs of \$13.6 million were incurred on the Southdown DFS during the quarter (Grange’s 70% equity share).

Sales for the quarter continued using an “IODEX” index based pricing mechanism with an additional pellet premium.

The average price received during the September quarter was US\$218 per tonne of pellets (FOB Port Latta).

Revenues at Savage River are forecast to remain strong throughout the next quarter, with increased production and pellet prices expected to remain strong. During the quarter BlueScope Steel, one of Grange’s primary customers, announced that it was shutting down one of its two blast furnaces. This change in their operations will not affect their offtake agreements with Savage River.

## SAVAGE RIVER OPERATIONS

### Production and Costs - September Quarter 2011

Grange continues to forecast approximately 2 million tonnes of pellet production in 2011, rising to approximately 2.3 million tonnes in 2012 and 2013.

	<b>Production and Costs September Quarter 2011</b>	<b>Production and Costs June Quarter 2011</b>	<b>Production and Costs September Quarter 2010</b>
<b>Total BCM Mined</b>	3,184,680	4,103,863	4,055,157
<b>Total Ore BCM</b>	402,846	510,546	217,167
<b>Concentrate Produced (t)</b>	556,122	501,748	610,321
<b>Weight Recovery (% DTR)</b>	34.5	32.3	39.6
<b>Pellets Produced (t)</b>	506,143	520,785	557,779
<b>Pellets Shipped ( t)</b>	494,138	517,404	582,148
<b>Concentrate Shipped (t)</b>	60	40	18,073
<b>Pellet Stockpile (t)</b>	193,386	180,856	219,301
<b>Concentrate Stockpile ( t)</b>	35,581	8,414	26,285
<b>Direct Operating Cost A\$/tonne Pellet Produced</b>	127.72	123.67	78.80

*Note : Direct operating costs includes all costs associated with producing iron ore pellets including deferred mining and ore stockpile movements but excludes royalties, depreciation and amortisation costs.*

## PRODUCTION

Safety performance was sustained with no Lost Time Injuries (“LTI”) recorded for the fourth consecutive quarter. In the past 12 months the Total Recordable Injury Frequency Rate (TRIFR) has fallen from 16.9 (30 September 2010) to 3.48 (30 September 2011), a 79% improvement.

Grange has continued the remediation cut back of the east wall. This work was always required but is being brought forward from 2012/13 as a result of the rock slide that occurred in June 2010. Whilst undertaking the cut back, ore has been sourced from satellite pits, with the result that lower ore grades have been experienced in the concentrator. These have been offset to some degree by the concentrator treating ore at record rates, made possible by the planned maintenance and upgrade work undertaken in the first quarter of the year.

Longer ore haulage distances, increased mining volumes and additional equipment have contributed to relatively high mining costs for the quarter. Mining recommenced at the bottom of the North Pit during the quarter and ore grades improved significantly as a result. Ore stocks are building and the east wall remediation work is concluding and as a result mining costs will reduce.

## COST MANAGEMENT

Year to date, direct operating costs are lower than budgeted and are forecast to remain so. Grange forecasts operating expenditure at Savage River this year of approximately \$215 million.

Unit costs (\$/tonne of pellet produced) in the quarter were \$127.72 and are forecast to reduce in the December quarter, as ore grades improve with a resulting increase in pellet production, and as mining costs reduce.

Capital costs for the quarter were \$5.6 million primarily for projects at Savage River. The major items were progress payments for the autogenous mill shell replacement, drape mesh for the pit walls, tailings dam development, and a low loader for in pit movement of large pieces of mining equipment

## EXPLORATION & DEVELOPMENT - Savage River

The majority of the low grade ore that has been mined during the east Wall cutback was sourced from satellite pits onsite that were never included in the original resource. A \$2 million exploration drilling program commenced at Long Plains during the quarter. Long Plains is a magnetite deposit located approximately 10 kilometres south of the Savage River open pit. The drilling program is expected to be completed by February 2012 and a resource model is scheduled to be produced by April 2012.

As previously mentioned, the MOUs with Shree Minerals and Venture Minerals announced during the quarter have the potential to result in increased production at Savage River of between 200,000 and 300,000 tonnes per annum of magnetite concentrate.

## SOUTHDOWN MAGNETITE PROJECT

(Southdown; Grange 70%, Sojitz Resources and Technology Pty Ltd 30%)

*Being an operator with extensive experience in magnetite mining and processing, and having cash flow generated from the Savage River operations places Grange in a unique position when compared to other magnetite project developers in Australia. Grange has the systems, processes, intellectual property (IP) and the people that, together, will help minimise the planning and execution risk of the Southdown project.*

The following summary is an update on progress achieved with the Southdown Magnetite Project to date.

### PROJECT OVERVIEW

Located approximately 90km northeast of the Port of Albany on the south coast of Western Australia (Figure 1), the Southdown Magnetite deposit is approximately 12km in length and represents one of the best premium quality magnetite deposits currently under development in Australia. With a location within 100km of existing port facilities, an ore body close to surface, power generation available from the Collie area and water supply from a dedicated desalination plant at Cape Riche, critical infrastructure solutions are in place and the deposit is favourably placed for development. In addition, a ready labour force is available in and around Albany so the project will not have to compete for labour out of the Perth market.

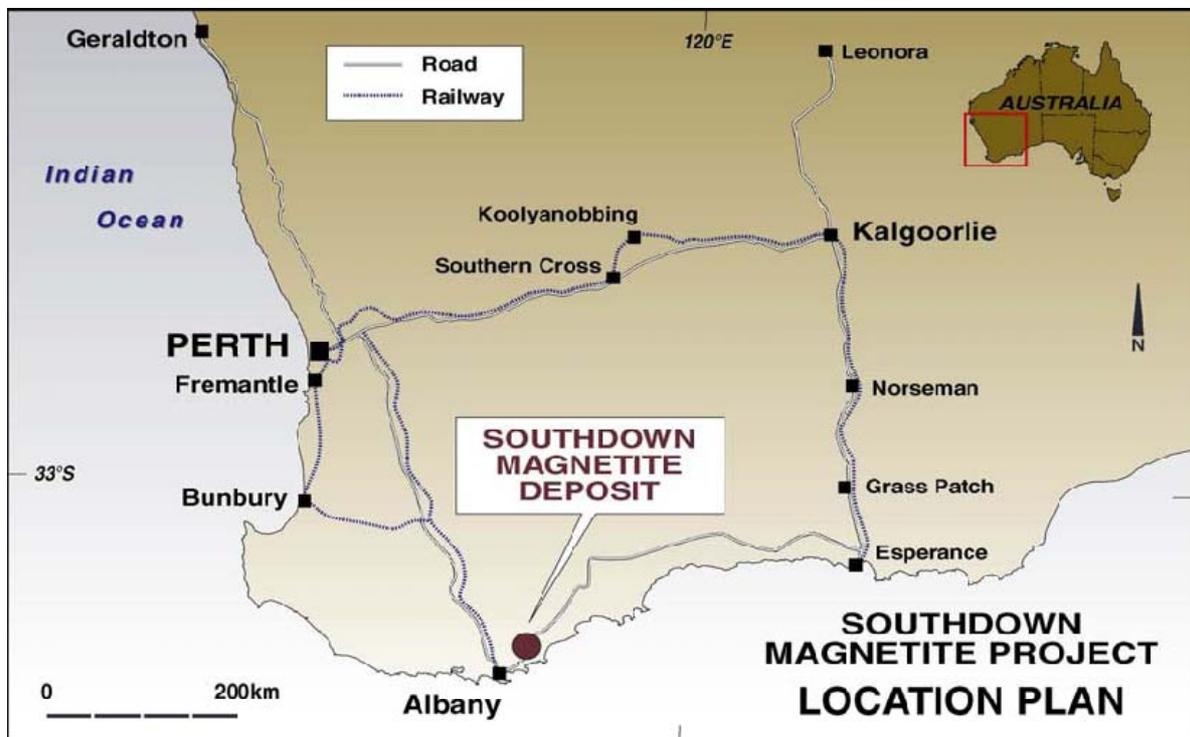


Figure 1: Location of Southdown Magnetite Project, Albany WA

The Southdown Magnetite deposit will be mined using standard open pit mining methods with the magnetite mineralisation being crushed, ground, screened and magnetically separated to produce a magnetite concentrate resulting with an iron content in excess of 68%.

The concentrate will be pumped via a buried slurry pipeline, approximately 100km to a concentrate storage facility at the Port of Albany before being loaded onto cape size vessels and shipped to an iron ore pellet plant. This is currently planned to be located in Kemaman, Malaysia. Filtered water recovered from the slurry will be pumped back to the mine site for re-use in the concentrator via a return water pipeline buried beside the slurry pipeline.

At the Port of Albany, the construction of a new berth will be required and the Albany Port Authority will provide up to nine hectares of land to accommodate a concentrate storage facility and ship loading infrastructure. Widening and deepening of the existing shipping channel into the Princess Royal Harbour and extending the channel into King George Sound will be required to facilitate the use of cape size vessels.

## **RESOURCES & RESERVES - Southdown**

Resources and reserves at Southdown remain unchanged.

Since the commencement of the DFS in April 2011, five drill rigs have been drilling at the site undertaking a large geotechnical and resource drill program. Initially, the western resource is being drilled to target an improved resource confidence and increase reserves. Drilling will also be undertaken in the eastern side of the deposit and is targeted to increase and improve the resource. Results from the western drilling program will be available in the fourth quarter of 2011 and from the eastern drilling program in the first quarter of 2012.

## **ENGINEERING UPDATE**

Engineering work for the Definitive Feasibility Study (+/- 15% accuracy) with the MAGJV (AMEC and GHD JV), Ausenco PSI and JFA/SMEC JV is well advanced with significant progress made during the last quarter. The DFS is scheduled for completion in the first quarter of 2012.

Tenders have been issued for long lead equipment for the concentrator as well as for the construction of the desalination plant.

The Port of Albany engineering and geotechnical investigations have now been completed. Pilot simulation along the shipping channel was conducted with cape size vessels with good results.

The project has continued to make significant progress and is well positioned to quickly proceed through to the next stages of the development.

## **METALLURGICAL TEST WORK UPDATE**

Metallurgical test work required for the feasibility study has been completed. Ongoing vendor test work is continuing to enhance and support individual equipment selection.

## **ENVIRONMENTAL APPROVALS UPDATE**

Desalination Plant Public Environmental Review (PER) was released for public review in September 2011. The four week public consultation phase ends in October 2011. The Western Australian Environmental Protection Authority is expected to submit its report and recommendations to the Minister for the Environment in January 2012.

The Commonwealth Department of Sustainability, Environment, Water, Population and Communities (“SEWPaC”) determined that the Southdown Project required formal assessment under the *Environment Protection Biodiversity Conservation Act, 1999*. The Controlled Action assessment commences in the fourth quarter of 2011.

SEWPaC determined that the Western Power Transmission Line was a Controlled Action requiring formal assessment. Approval with conditions in relation to environmental offsets for both projects is expected in early 2012.

## POWER SUPPLY UPDATE

Western Power continues to make good progress on the HV Transmission Line which will run from Collie to the mine site. Work has concentrated on social, environmental, technical and economic issues. The Economic Regulation Authority of WA (“ERA”) has determined that it will grant a Regulatory Test waiver for the proposed shared transmission line.

Western Power has completed a financial estimate for the building of the transmission line and is preparing a tender for its construction.

Commercial negotiations on an Electricity Transfer Access Contract and Interconnection Works Contract are on-going with Western Power.

A formal tender for the supply number of electricity to the Project was issued in September 2011.

## Project Finance Update

Standard Chartered has been appointed as Financial Advisor for the project debt financing.

## CORPORATE

### Debt

The company continues to have no net debt. Total debt in the Company has reduced during the quarter, falling to A\$38.6 million (A\$29.2 million owing on a mobile equipment finance lease arrangement, A\$9.2 million owing to the Tasmanian Government, and A\$0.2 million owing on an insurance premium financing arrangement). During the quarter, Grange entered into an A\$20 million working capital facility with the Industrial and Commercial Bank of China Limited.

**The inaugural dividend payment was paid on 13 October, reducing cash reserves by \$23 million.**

### Hedge Book

Grange remains unhedged and monitors its currency hedging strategy regularly at its monthly treasury meetings. The Australian dollar fluctuated between US\$1.108 and US\$0.961 over the quarter. A total of US\$184 million was converted to Australian dollars during the quarter at an exchange rate of US\$1.0325 taking advantage of the weakening Australian dollar.

## Carbon Price effects

Following the recent announcement of the Australian Government's Climate Change Plan (the Plan), the Company is undertaking a review of the potential impacts and has lodged transitional assistance submissions with the DCC for both the production of magnetite concentrate and iron ore pellets.

## Securities Information

A total of 755,647 shares were issued to employees under the Long Term Incentive Plan during the quarter being the second vested tranche of the allotment for the 12 month period ended 30 June 2010.

The Company continues to see excellent liquidity in the trading of its shares. The number of shareholders on the Register continues to grow and as at 30 September 2011 there were over 4,800 shareholders.

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